



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Frontier Bancshares, inc

Person to be contacted regarding this report:	James E. Dyess, President
CPP Funds Received:	\$3,000,000
CPP Funds Repaid to Date:	\$1,600,000
Date Funded (first funding):	4/24/2009
Date Repaid ¹ :	11/24/2009

RSSD: (For Bank Holding Companies)	703552
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	3256
City:	Austin
State:	Texas

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	Additional Capital allowed us to make loans due to the impact on our capital ratio. In particular, we increased overall lending, focusing on small business. Deposits growth from \$108 to \$148 million from 2008 to 2009 made possible by the capital provided the funding for these loans.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	SBA guaranteed loans, small business loans, and commercial real estate loans. Our commercial and industrial loans grew from \$17 to about \$24 million from 2008 to 2009 representing a 25% increase in those types of loans.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Due to deposit growth fostered by additional capital, excess liquidity was invested in municipal/school bonds and other government backed bonds. Our securities portfolio was increased from around \$14 to \$20 million from 2008 to 2009 due to the increase in deposits.
<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	

<input type="checkbox"/>	Reduce borrowings	
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

The bank did not have to raise additional capital from our stockholders to fund the deposit growth and maintain adequate capital levels. The CCP allowed the bank to maintain Tier 1 Risk-based capital over 12% despite the growth of our assets. Without the CPP, capital levels of about \$13 million would not have supported the growth which enabled additional lending levels that exceeded 25% over the prior year in the SBA and commercial/industrial loans.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The bank would have limited growth of our deposits in order to maintain capital levels. Growth would have increased as a slower rate as earnings or capital infusions would have allowed. Deposit growth was critical to provide liquidity levels around 20% while increasing our targeted lending niches. The growth funded interest income that allowed our provision for loan losses to be increased from \$1.1 million to \$1.8 million from 2008 to 2009.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

Our liquidity ratio has been increased due to the ability to attract additional deposits that were placed in earning assets other than loans. We have expanded services and grown market share in the Austin and Salado areas due to the ability to increase our deposit base.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.